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Latam Daily: December Inflation Slows in Peru

- **Peru: December inflation slows and will remain under control in 2025**

Headline inflation increased in December, but less-than-expected by market consensus, accumulating a rate of 2.0% for 2024, within the target range after four years. For 2025, we slightly revised down our estimate from 2.4% to 2.3%, with pressures coming more from the services side than from the goods side, similar to 2024. Regarding the reference rate, we expect a pause in January and maintain the terminal rate at 4.50%, which would be reached during Q2-25.

Headline inflation was +0.11% in December, below the Bloomberg consensus (+0.30%) and the historical average of the last 20 years (+0.32). This means that annual inflation slowed from 2.3% in November to 2.0% in December, at the midpoint of the Central Reserve Bank's (BCR) target range. Thus, nine consecutive months have been accumulated in which inflation remains controlled within the target range. In addition, accumulated inflation for the year returns to the target range after four years, since 2020.

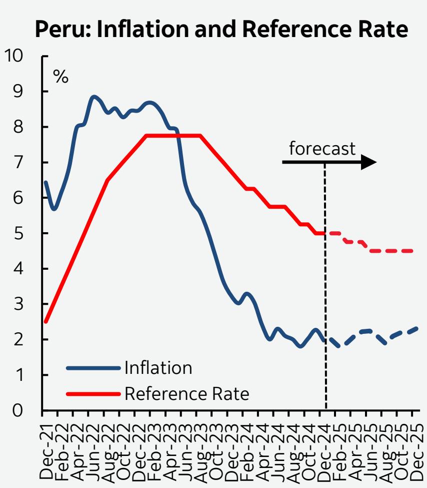
Core inflation, the trend component that excludes food and energy, had a slight increase of +0.40%, placing it slightly above the historical average of the last 20 years (+0.37%). In year-on-year terms, it remained at 2.6% in November. While it is true that some persistence has been observed in the last two months, for the BCR this is not something to worry about. The BCR sees core inflation at the midpoint of the target range (2.0%) as ideal, but it is not something crucial, such as keeping general inflation within the target range.

By the end of 2025, we revised our inflation projection slightly downward from 2.4% to 2.3%. During the first quarter, inflation will remain around 2.0%. Even though the water resources deficit in the north of the country is beginning to recover, there would be an impact on the price of products such as rice and lemons, which would generate some pressure on the level of inflation; however, these pressures would be offset by a greater base effect.

Regarding the BCR reference rate, we expect that at the next meeting on January 9th, the Board will again keep its rate unchanged at 5.00%. We maintain our base scenario of a terminal rate of 4.50%, which would be reached during Q2-25. In the presentation of its latest inflation report, the BCR confirmed that there is no rush to reduce the reference rate, since the real rate (2.55%) is close to 2.0%, a level considered neutral, and also because economic activity is around its potential level, which does not generate pressure on the level of inflation. On the other hand, the BCR could also be waiting for the impacts of possible tariff policies from Donald Trump's new government, so there would be a greater degree of caution than in the past.

—Ricardo Avila

Chart 1



Sources: Scotiabank Economics, BCRP.